



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

Studies of Taxation.

FROM THE COMMITTEE ON TAXATION.

Morning Session, December 29.

THE INCIDENCE OF LOCAL TAXATION.¹

BY PROF. EDWIN R. A. SELIGMAN OF COLUMBIA COLLEGE.

There have been at least six different theories of the incidence of taxation in general. These are the Physiocratic theory, the absolute theory, the optimistic or diffusion theory, the capitalization theory, the negative theory, the eclectic theory. We limit ourself here to the discussion of the incidence of the local property tax, and in especial to its most important element—the real estate tax.

First as to the rural land-owner. It is well known that personal property escapes taxation very largely in the cities, whereas in the country districts the tax is in reality a general property tax. The farmer thus bears an undue part of the burdens.

The force of this contention is sought to be weakened by the doctrine that the tax on the farmer's property is diffused throughout the community, and that the tax will be shifted from the producer to the consumer. Even if this were true it would be a tax on consumption, that is on expense—and of all bases of taxation expenditure is the least equitable.

¹This paper, much expanded, will form part of a study on the incidence of taxation in general, soon to be published.

But in reality there is no such shifting. The tax on the rural land-owner will tend to stay where it is put.

Theoretically there may be five kinds of land taxes:

1. Tax on economic rent.
2. Tax on profits from agriculture.
3. Tax according to net produce.
4. Tax according to quantity.
5. Tax according to selling value.

A tax on economic rent can never be shifted. Here all writers are agreed. As regards the other taxes Ricardo maintained that a tax on the value of land, or on produce, will raise prices and fall on the consumer. Ricardo's theory would hold good on two conditions: First, that there was an absolute mobility of capital and labor; and, secondly, that the community in question was an isolated one. It is assumed that the farmers will abandon the land rather than cultivate it at a loss, and that a decrease of supply will raise price. Now it may happen that an increase of price will often lead to a decrease of consumption, which again will react on the price,—so that at best only a part and not the whole of the tax would be shifted to the consumer. But in actual life it is a difficult matter for producers to decrease the supply of agricultural products. The tax would often simply have the influence of reducing the farmer's profits. Furthermore, the market value of produce is often fixed by the conditions of production in widely separated localities or countries. The Western farmer will not get a whit more for his wheat, the price of which is fixed in Liverpool by the conditions of production in countries thousands of miles distant, if his taxes are

doubled. The rural land-owner will in general bear most of the tax.

In the case of cities we may have four cases—

1. The tax may be levied on the ground-owner alone.

2. The tax may be levied on the house-owner, as is the case in some European countries.

3. The tax may be levied on the ground-owner, who is at the same time the house-owner, as in the real estate tax of America.

4. The tax may be levied on the occupier, as in England.

1. When the tax is levied on the ground-owner the case is simple. The value of a lot is fixed by the law of monopoly value. Its price will be entirely unaffected by the imposition of a tax. Whether the demand for the site increase, diminish or remain stationary, the ground-owner will simply get less net rent because of the tax. A tax on the owner of the soil or on ground-rents, when levied on the owner, cannot be shifted.

2. The tax may be levied on the house-owner, apart from the question whether or not he is the land-owner. Buildings represent the investment of capital and labor. A special tax imposed on the building-owner can therefore generally be shifted. Otherwise the builders' profits would be reduced below the customary level. The result would be a cessation of building operations, a consequent scarcity of houses, and a gradual increase in the rent or value of existing houses.

A distinction must, however, be drawn between houses already constructed and those built after the tax is imposed. In exceptional cases the tax imposed

on old houses cannot be shifted. If a town, or a portion of a town is decaying in desirability, owners of existing houses cannot shift the tax,—not on the ground-owner, because since the structure is already there, there is no reason why the ground-owner should forego any portion of his rent. Again, the house-owner cannot shift the tax to the occupier, because there is no increase in the demand. These, however, are exceptional cases. Normally the tax will be shifted.

On whom will it be shifted? It will be shifted on the land-owner only in case the taxes are so extraordinarily high that the building-owner will prefer to abandon the house entirely rather than to renew the lease. In all other cases, however, the tax will be shifted to the tenant.

The whole argument thus far holds good only when the house tax is a special tax. As soon as other forms of capital, or other profits are also taxed, the tax will always rest on the original payer, *i. e.*, the house-owner.

3. The tax is levied on the ground-owner, who is at the same time the house-owner. We need here only combine the two preceding cases. The incidence of the real estate tax in American cities depends partly on the relative value of the house and the lot, partly on the actual existence of a general property tax, partly on the peculiar circumstances of the particular piece of property. Our conclusion is, that while the real estate tax falls on the owner in case of stationary or declining populations, by all means the larger part of the tax is shifted on the tenant in the normal case of prosperous towns or city districts, under the present administration of our property tax.

4. The tax is assessed on the occupier according to rental value. It is generally supposed that the ground rent part of the tax will be shifted to the ground-owner. But this is not always true, for three reasons: 1. The ground rent may be so low and the rent so high that the builders cannot afford to erect any more houses. This means an increase of the rents. 2. In the course of long leases any intervening increase must rest on the occupier. He cannot improve his condition until the expiration of the lease. 3. But even in the case of short leases, it is not true that the tax can always be shifted. If the competition for lodgings be such that the rent is \$200, the occupier who has been paying \$10 as the ground tax proportion of the whole tax will not pay any less rent for the premises if his tax is increased to \$15. It might, indeed, cause the tenant to live in a less desirable locality; *i. e.*, lower his standard of life. The occupier could evade the tax, but he could not shift it. Conversely he will not have to pay more rent if his taxes are reduced. Thus even in short leases, except in cases of suddenly increased demand, the tax will frequently fall, to some extent, at least, on the tenant.

As regards the house-rent part of the tax, it will, in normal cases, be borne by the occupier; at all events in so far as the rate is uniform on all the houses concerned; so that by far the larger part of the local tax falls on the tenant. The English system, with the exemption of the ground-owner from special assessments, and its casting almost the whole burden on the occupier, is of all systems of direct local taxation perhaps the least equitable.

Discussion.

Professor Taussig: I am sure we must all regret the brevity of the presentation of Professor Seligman's paper, and personally I regret it the more because I was unable to make out clearly what was Professor Seligman's final conclusion, namely, the incidence of that part of the ordinary taxation in American cities upon ground rent, the value of the lot *per se*. My main object at present is to get perhaps a more explicit statement than I was able to get, asking what Professor Seligman's opinion is.

Professor Seligman: I regret very much that I was not able to make my meaning clear. I maintain, with all writers upon the topic in question, that a tax on ground rents, if assessed on the owner of the ground, must inevitably fall upon him. A tax upon ground rents cannot possibly be shifted.

Mr. Shearman: I am sorry that Professor Seligman did not read that part of his paper on the incidence of taxation in the English system. I would like to ask him whether his analysis of that subject satisfied him that it is true that, in the long run, the tax on ground rent does not fall upon the owner, even under the English system. I am quite aware that there are very long leases in use under the English system, and I quite understand Professor Seligman's idea that no one does calculate what will be the amount of tax laid upon the property during all that period. But is he satisfied that, in consequence of the existence of these long leases, the land-owners are able to any material extent, in the long run and on the average, to shift the burden of taxation upon ground values to the tenants?

Professor Seligman: I do not think Mr. Shearman put the case quite exactly. In England the tax is not assessed upon the owner, but upon the occupier, and it is a question as to whether the occupier is able to shift the tax upon the ground-owner. Of course the occupier has an opportunity to shift the tax upon the ground-owner at the end of a lease, but that will not help the occupier at any particular time. A great many cases do occur, and must occur, where the occupier is unable to shift the tax upon the ground-owner.

Mr. Peters: As the system is a permanent one in England, is not that taken into consideration in every lease or every rental, just as it would be at the expiration of the long lease that has been spoken of? If the system came newly into force, and were only understood to be temporary, I could understand how the effect described by Professor Seligman would be the real effect, but it seems to me that when the system is a permanent one, it must have its effect upon the system of rental.

DIRECT TAXES AS A SOURCE OF EARLY FEDERAL REVENUE.

BY DR. ROLAND P. FALKNER OF THE UNIVERSITY OF PENNSYLVANIA.

[Read by Title.]

Under the constitution the Federal government cannot impose direct taxes on the people without apportioning them among the States on the basis of the population. Since, except in a perfectly homogeneous population, numbers cannot be a measure of